

000890

REPORT TO THE CITY COUNCIL
EXECUTIVE SUMMARY SHEET

DATE REPORT ISSUED:

REPORT NO.

ATTENTION: Council President and City Council

ORIGINATING DEPT.: Department of Finance, Debt Management

SUBJECT: General Fund Deferred Maintenance Capital Improvement Projects Financing

COUNCIL DISTRICTS: Citywide

STAFF CONTACT: Lakshmi Kommi, (619) 236-6928

REQUESTED ACTION(S):

(1) Authorize the issuance of the Public Facilities Financing Authority (the "Authority") of the City of San Diego ("City") Lease Revenue Bonds, Series 2008A - Various Capital Improvement Projects ("2008A Bonds") in the principal amount not to exceed \$108 million and the execution of related financing documents to finance various General Fund Deferred Maintenance Capital Improvement Projects and costs of issuance; (2) Declare the City's intent to use proceeds of indebtedness to reimburse itself if funds are advanced by the City for eligible capital improvement expenditures related to the General Fund Deferred Maintenance funding program; (3) Authorize the form of the Financial Advisory Services Agreement between the City and Montague DeRose and Associates, LLC to provide financial advisory services for the proposed 2008A Bonds for an amount not to exceed \$37,500, plus reasonable out-of-pocket expenses not to exceed \$5,000, contingent upon the closing of the transaction; and (4) Authorize the City Attorney to appoint Hawkins Delafield and Wood LLP as Bond Counsel for the City in connection with the issuance of the 2008A Bonds, and pay an amount not to exceed \$70,000, plus reasonable out-of-pocket expenses not to exceed \$5,000, contingent upon the closing of the transaction.

STAFF RECOMMENDATION: Approve the requested actions.

EXECUTIVE SUMMARY: (ALSO SEE FULL STAFF REPORT)

The 2008A Bonds are an interim financing measure to address the funding needs identified for the General Fund deferred maintenance capital improvement projects in Fiscal Years 2008 and 2009. The proposed 2008A Bonds, with a 10-year maturity, will be privately placed with Bank of America, N.A.

The financing plan contemplates refunding the proposed private borrowing in two years (2010) with a 30 year traditional public offering. Therefore, instead of fixing an interest rate for the full 10 year borrowing term which would be higher than for a borrowing term for 2 years, working with the Purchaser, a two-tier pricing (described below) was structured: a lower fixed interest rate (based on a 2-year index plus fixed spread) for the first two year period and if the City is unable to refund the 2008A Bonds by 2010, a higher interest rate (based on an 8-year index plus fixed spread) for years 3-10. Note that under the financing structure, if the City is not able to refund the notes by the two year point, based on the market conditions at that time, and the levels of the 8-year index, the interest rate is fixed for 3-10 year period until the City can refund the Bonds could be a maximum of 12% (the maximum permitted legal rate). Based on current interest rate levels as of March 12, 2008, the interest rate for the 2 year term is 3.46% and the interest rate for the 3-10 year term will be 4.45% (See full staff report for discussion on pricing).

The issuing authority for the 2008A Bonds is the Public Facilities Financing Authority (the "Authority"). Financing documents being authorized for this transaction include – A Site Lease between the City and the Authority; a Lease Agreement between the City and the Authority; an Assignment Agreement between the Authority and the Trustee; an Indenture between the Authority and the Trustee; and a Purchase Agreement between the Purchaser and the Authority. It is anticipated that funding for certain capital expenditures related to the projects may need to be advanced by the City prior to the

completion of the proposed financing. In order to reimburse capital expenditures with proceeds from the financing, the City must adopt a reimbursement resolution in accordance with section 1.150-2 of Treasury Regulations.

The City's Financing Team for the 2008A Bonds consists of staff of the Chief Financial Officer, Debt Management, City Attorney's Office, Comptroller's Office, Treasurer's Office, Risk Management, General Services, and the Real Estate Assets Department. Outside consultants, include Montague DeRose and Associates, LLC ("Montague DeRose") as financial advisor, Hawkins Delafield & Wood LLP ("Hawkins") as the Bond Counsel, White & Case as the Purchaser's Counsel, and Wells Fargo Bank as Trustee.

Should the City Council approve the Ordinance and related financing documents, it is anticipated that the bonds would be priced during the last week of May 2008 with the closing and receipt of funds to occur during the first week of June 2008.

FISCAL CONSIDERATIONS:

Sources and Uses (preliminary and subject to change)

Estimated Sources

Par amount of 2008A Bonds	\$102,552,000
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Estimated Uses

Net Proceeds for the project (acquisition fund)	\$102,250,000
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Costs of Issuance	\$ 302,000
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Based on the principal amount of approximately \$102.6 million, and pricing as of March 12, 2008, the annual interest payment is estimated at approximately \$3.5 million for years 1 and 2. Interest only payments during the first two years will be made on a semi-annual basis on December 1 and June 1. The estimated debt service has been incorporated in the 5-year outlook and will be brought forward for Council authorization during the FY 2009 budget process. If the bonds remain outstanding beyond 2 years, the annual debt service (principal and interest), based on the interest rate as of March 12, 2008, is projected at approximately \$15.5 million, FY 2011-FY 2018.

EQUAL OPPORTUNITY CONTRACTING:

The Funding Agency is the City. Montague DeRose will provide financial advisory services for an amount not to exceed \$42,500 for the proposed 2008A Bonds. Montague DeRose submitted a Work Force Report indicating less than 15 employees and is, therefore, exempt from employment category goals.

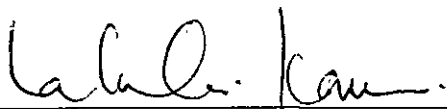
Hawkins will provide Bond Counsel services for an amount not to exceed \$75,000 for the proposed 2008A Bonds. Hawkins submitted a Work Force Report, EOC staff has requested, received and approved an EO Plan from Hawkins Delafield and Wood. Staff will continue to monitor the firm's efforts to implement their plans.

PREVIOUS COUNCIL MEETING and/or COMMITTEE ACTION: N/A

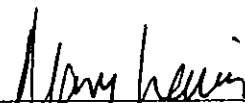
COMMUNITY PARTICIPATION AND PUBLIC OUTREACH EFFORTS: N/A

KEY STAKEHOLDERS AND PROJECTED IMPACTS:

Business entities involved in this transaction are: Bank of America, N.A. (Purchaser); Hawkins Delafield & Wood LLP (Bond Counsel); White & Case, LLP (Purchaser's Counsel); Wells Fargo Bank, National Association (Trustee); and Montague DeRose and Associates LLC., (Financial Advisor).



Lakshmi Kommi
Debt Management Director



Mary Lewis
Chief Financial Officer